

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Lakshmi Kommi on May 4, 2006

DATED: May 31, 2006

On Thursday, May 4, 2006, David Callaghan of Kroll Inc. and Michael Schachter and Jesenia Ruiz de la Torre, in Willkie Farr & Gallagher LLP's capacity as counsel to the Audit Committee, interviewed Lakshmi Kommi. She was represented by counsel, Anthony Columbo. Also in attendance were Rahul Khona and Donielle Evans of KPMG. The interview took place in a conference room on the 3rd floor of the City Administration Building and lasted approximately two hours.

The following memorandum reflects my thoughts, impressions, and opinions regarding our meeting with Lakshmi Kommi, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

Warnings

Mr. Schachter began the interview by explaining the circumstances and purpose of the City of San Diego's (the "City") creation of the Audit Committee, noting that information obtained during the course of the interview would be used, if relevant, in the Audit Committee's eventual report. Mr. Schachter explained that Willkie does not represent Ms. Kommi and, thus, statements made during the interview are not covered by the attorney-client privilege. Nonetheless, we would be treating the information obtained during the interview as confidential, covered by the work-product privilege during the investigation, but any such privilege would likely be lost with the release of the Audit Committee's report. Mr. Schachter asked that Ms. Kommi keep the interview confidential. Mr. Schachter further explained that, if requested, we would provide information from the interview to the SEC, the U.S. Attorney's Office or the City's outside auditor, KPMG, so it is important that Ms. Kommi be accurate and truthful. Mr. Schachter emphasized that Ms. Kommi should seek clarification of any question at any time.

Mr. Columbo stated that he was concerned that we would be covering many of the same issues that V&E had discussed. Mr. Schachter explained that we would attempt to elicit only new information. However, because of the deficiencies in the V&E Report it would also sometimes be necessary to cover old ground. Mr. Columbo then turned Mr. Schachter's attention to a letter that Ms. Kommi had written, addressed to Troy Dahlberg of Kroll, regarding the errors she noted in the V&E Report. Mr. Columbo asked that the interview also not cover information contained in that correspondence unless it was necessary.

Background

Mr. Callaghan began the interview by asking Ms. Kommi to describe her educational and professional background. Ms. Kommi stated that she received an undergraduate degree in Economics and Public Administration and a masters degree in Political Science while she was a resident of India. She then moved to San Diego, where she attended the University of San Diego and obtained a masters degree in International Affairs in 1991. Ms. Kommi began working for the City in 1993 as a Management Trainee. When Ms. Kommi began working, she was a part of a small economic research and analysis unit within the Financial Management Department. After some time had passed, her career advanced with that same department, although the name and role of the department changed through the years. Ms. Kommi explained that in the late 1990's, the initiative of Mary Vattimo, the Financial Management Department became Financial Services, Division of the Treasury Department. Ms. Kommi explained that Vattimo was the head of the Financial Management Department, but when she became City Treasurer, she initiated the reorganization. Ms. Kommi became a First Line Supervisor in 2001. In mid-to-late 2002, Ms. Kommi became a Deputy Director within Financial Services.

Mr. Callaghan asked Ms. Kommi to describe her job responsibilities throughout her career. Ms. Kommi replied that as a Management Trainee in 1993, she was hired to do day-to-day work related to what was then called the Master Lease Program, a program that maintained short-term leases. Ms. Kommi would compile funding packages, "get lease providers in place," and assist Supervising Economists. Ms. Kommi did not address what getting "lease providers in place" entailed. As a Management Trainee, Ms. Kommi also assisted with bond offerings, by assembling financing schedules. She considered this work to be mundane, low-level work. Slowly, perhaps after her second year, Ms. Kommi became an Assistant Economist. Approximately six months later she became an Associate Economist. As she received these promotions, Ms. Kommi was progressively given more responsibility regarding a few bond financings, such as the Ballpark Offering. Ms. Kommi recalled that she worked on annual reports for issuances that occurred in 2001. Ms. Kommi and Shelly Mercer, were responsible for disseminating the annual reports. Ms. Kommi currently assesses redevelopment projects to ensure that long-term obligations incurred by those projects are in the City's best interests.

Mr. Callaghan asked Ms. Kommi what other disclosure information she was responsible for. Ms. Kommi replied that when she is involved in a financing, as a member of the financing team, she reviews all of the documents circulated by bond or disclosure counsel. Ms. Kommi also stated that she is involved in conference calls and document review sessions held by the financing team. In developing disclosures, a financing team exists consisting of personnel from Financial Services, the City Treasurer's Office, the City Attorney's Office, the City Auditor's Office, and the City Manager's Office. Bond counsel, disclosure counsel, financial advisors, and any specific departments relevant to the disclosures were also involved.

Financial Management and Financial Services Departments

Mr. Callaghan asked Ms. Kommi to explain the organizational structure of the Financial Management Department and the Financial Services Department. Ms. Kommi explained that as a Research Analyst within the Financial Management Department, she reported to Mary Vattimo. Vattimo reported to the Financial Management Director and the Deputy City

Manager. When Financial Services was created as part of the City Treasurer's Office, Financial Services would report to Vattimo regarding the General Fund and to Shari Sacks (Supervising Economist) regarding Special Districts and Utilities. Both Vattimo and Sacks reported to the Director of Finance. Ms. Kommi stated that other Research Analysts, including Senior Analysts such as Michael Carrier, began to report to her as she was given more responsibility within the department.

Mr. Callaghan asked Ms. Kommi to whom she would give her work product. Ms. Kommi stated that she would give funding packets, to be used in financings, to superiors within her department. Those packets would then be presented to the City Council. She also provided information to individuals who managed financings when those took place. The Rating Agencies (the "Agencies") would also receive information that she created. Ms. Kommi was a point of contact for all three Agencies. Ms. Kommi would assist the Agencies by providing them with the materials they needed to analyze particular transactions. Ms. Kommi felt that Vattimo gave her that responsibility because Vattimo had a great deal of confidence in her. Vattimo told Ms. Kommi that it was very important to communicate with the Agencies.

Mr. Callaghan asked Ms. Kommi to describe the training that she received within the Financial Services Department. Ms. Kommi stated that the department's approach was very hands-on, but involved oversight and supervision. Ms. Kommi recalled that Vattimo and Patricia Frazier (Deputy City Manager) were both very involved in reviewing her work and providing feedback. Ms. Kommi stated that she currently engages in that same type of review as a supervisor.

Appendix A

Mr. Callaghan asked Ms. Kommi to describe her role regarding Appendix A (the "Appendix"). Kommi explained that in 1997-98 financial advisors updated the Appendix annually, but that after that period, the City became more involved in the updating process. Ms. Kommi and Carrier jointly worked on updating the Appendix based on information they received from other individuals. For example, SDCERS Administrator Lawrence Grissom and other SDCERS staff, such as Patrick Lane (SDCERS Chief Finance/Technical Division Manager) and Don Clark, provided information and the Appendix would be updated accordingly. She recalled that on one occasion it was noted in the Appendix that the SDCERS Board had not yet approved a valuation that was included in the language of the Appendix. Vattimo would also receive actuarial reports that would result in updates. Ms. Kommi and Carrier did not analyze the information that was given to them; they essentially "filled in the blanks." Ms. Kommi recalled that Jody Pontelli and Peter Armstrong, both employees of the Financial Services Department, also participated in updating the Appendix. The updated Appendix would be reviewed by Frazier and Vattimo before it was put aside to be used for any financings that would occur. Mr. Callaghan asked Ms. Kommi if Vattimo was involved in the exchanges of information between Ms. Kommi and SDCERS. Ms. Kommi replied that Vattimo was only involved with the Appendix in the review process, after all of the information was obtained and the Appendix was updated. Ms. Kommi viewed her work on the Appendix as an administrative function, because it involved making a redline of the previous draft and simply entering in new information so the Appendix was ready to be used.

After Ms. Kommi became a First Line Supervisor in 2001, she continued to update the Appendix. Ms. Kommi recalled that she continued to review the Appendix to make qualitative changes, not modifications based on policy. The process of maintaining the Appendix was ongoing so that when a new financing occurred, a version of the Appendix that was not too dated would become available. For this reason, the Appendix was always updated, regardless of whether or not an offering was anticipated. Ms. Kommi stated that the Appendix was used as a starting point for offerings. The Appendix, along with all of the other portions of the offering, would be reviewed and amended by a financing team. A revised draft would then be circulated to the team. After any changes were made to the Appendix it would be "folded" into the offering.

Mr. Callaghan turned Ms. Kommi's attention to the paragraphs in the Appendix that contain information regarding the pension system (Exhibit 1 at A-26). Ms. Kommi recalled that those paragraphs were already included in the Appendix before she ever began working with the Appendix. She was able to recall this because when the language first became controversial, she researched the language to understand its origins. She was not able to discover who drafted the language, but she found out that it was first used in a 1993 financing. Ms. Kommi could not recall ever making any changes to the first two paragraphs in the Appendix that discuss the pension system, but she thought that in 2001 a change might have been made to the third paragraph because a new actuarial report was issued. The SDCERS staff, disclosure counsel, Frazier, Vattimo, or anyone on the financing team could have made changes to the pension section of the Appendix based on information that they had. She thought that Frazier may have had some additional information regarding pension issues because she reviewed the City's budget and Frazier understood labor contracts. The City Auditor's Office may have had additional information because they had a representative on the Board. The Budget Department may have also had additional information regarding pensions because of their knowledge of the City's budgets. Lastly, Les Girard from the City Attorney's Office may have had some additional information because he was familiar with labor contracts.

Mr. Callaghan asked Ms. Kommi if she remembered Vattimo ever suggesting any changes to the Appendix. Ms. Kommi recalled that in 2003 she was leading two financings. In connection with those financings, Ms. Kommi updated the pension section of the Appendix because by then there was an effort to understand why the system's Unfunded Actuarial Accrued Liability ("UAAL") was high and how actuarial reports stated that investment losses were the largest contributor to the increase of UAAL. In this context, Ms. Kommi recalled that a number of redlines were exchanged between Vattimo and herself; Vattimo would suggest some changes and Ms. Kommi would modify the Appendix accordingly. Ms. Kommi could not recall what specific changes Vattimo suggested.

Ms. Kommi once noticed an error regarding some calculations that were made as she was updating the Appendix. Ms. Kommi recalled that there were some discussions to clarify that information so that the Appendix would be accurate as a result. Ms. Kommi stated that she did not know if those changes were also made in the CAFR (Comprehensive Annual Financial Report). Ms. Kommi could not recall any additional facts regarding the error that she discovered.

Ms. Kommi walked through the Ballpark Offering (Exhibit 1 at A-11 - A-33) and stated that tables 12-13 and 15-17 were lifted from the CAFR. Ms. Kommi recalled that tables 20-22 were not from the CAFR; staff from the City Auditor's Office provided that information.

Report to the Rules Committee

Mr. Callaghan then discussed Ms. Kommi's involvement with the Rules Committee Report of February 2002.¹ Ms. Kommi recalled that as a result of the Rules Committee Report, the City Manager needed to create a "solutions packet" regarding the City's growing pension liability. Vattimo asked Ms. Kommi and Carrier to work on the project. Ms. Kommi could not recall who asked Vattimo to involve her staff in the project. Ms. Kommi recalled that there was an effort among several departments to develop short and long-term solutions to the pension liabilities issue and then to create a staff report. Ms. Kommi recalled that before she was assigned to this project, she had not had any discussions regarding pension issues with Vattimo.

Ms. Kommi reviewed an email that she sent to Dari Barzel, Lead Analyst, dated February 20, 2003 (Exhibit 2). Mr. Callaghan asked Ms. Kommi if she recalled sending this email. Ms. Kommi stated that she recalled sending several emails and having some conversations over the telephone with Barzel. Mr. Callaghan asked Ms. Kommi if she was surprised that the email was dated 2003, since the Rules Committee Report was presented in February 2002. Ms. Kommi stated that she was not surprised. Mr. Schachter asked Ms. Kommi to describe Barzel's involvement in the staff report regarding pension issues, considering that Barzel appeared to be "clueless" in the email. Ms. Kommi stated that it was unfair to characterize Barzel as "clueless" considering that many people did not know anything about pension issues. Ms. Kommi recalled that pension issues were not "on our radar." Barzel was simply "on the same boat as everyone else." Ms. Kommi stated that based on this email, it appeared that she had shared the Rules Committee Report and the presentation to the Rules Committee with Barzel and Barzel was reacting to that information.

Mr. Callaghan asked Ms. Kommi what she knew about the Blue Ribbon Committee (the "BRC"). Ms. Kommi replied that she was aware of the BRC because it was meeting on the floor where her office was located. Ms. Kommi stated that she had never attended a BRC meeting.

Rating Agencies

Mr. Callaghan asked Ms. Kommi what her role was regarding the Agencies. Ms. Kommi reiterated that she was the central point of contact for all three Agencies. She characterized the Agencies as being "hands-on and very detailed." Ms. Kommi recalled that the Agencies would have a list of questions, which she would answer either by phone or at an annual meeting with the Agencies. The financial advisors on a transaction would sometimes also field questions from the Agencies.

¹ It appears that Ms. Kommi is referring to the Blue Ribbon Committee's Report which was presented to the Rules Committee in February 2002.

Mr. Callaghan asked Ms. Kommi what her role was in preparing for presentations to the Agencies. Ms. Kommi replied that once it was clear whether the presentation would be general in nature or regarding a specific financing, an outline would be prepared that set forth the content of the presentation. The outline would show the general topics that needed to be discussed with the Agencies and this would typically be prepared about a month before the presentation was scheduled to be made. The outline would then be sent to key internal parties to ensure that any information in which the Agencies would be interested would be included in the outline. The key people that Ms. Kommi could recall were involved were Frazier, Ryan (City Auditor and Comptroller), Vattimo, Carrier, and herself. After the outline was finalized, "panels," which Ms. Kommi indicated were PowerPoint presentation slides, would be prepared for each topic based on the analysis and research that was conducted by various individuals assigned to specific topics. Ms. Kommi recalled that certain sections of the presentation were given to certain people as tasks were divided up. Those assignments would change if a suggestion were made that a different individual was better suited to handle that particular section. A week or two before the presentation was scheduled to be made to the Agencies, a binder would be prepared containing the outline and all of the "panels" that had been prepared. The binder would be circulated to the financing team, which would give comments and discuss items that needed to be clarified. The binder would sometimes go through three or four drafts before all the comments from the financing team were incorporated. The final binder would then be created and the presentation was made to the Agencies. Each person who worked on a specific section would present his/her section to the Agencies.

Mr. Callaghan asked Ms. Kommi how the decision was made to include certain information in the binder and whether an effort was made to include information that reflected positively on the City in the presentation. Ms. Kommi stated that generally speaking, information would be included if it was related the Agencies' "criteria." For example, fundamental economic information regarding the City would be included in the presentations to the Agencies, but pension issues would not be presented. Ms. Kommi stated that the 2003 presentation to the Agencies did include information regarding the pension system, because the system had become "a hot topic." Mr. Schachter asked Ms. Kommi if there was an attempt to tone down negative statements in the presentations to the Agencies. Ms. Kommi stated that there was not. Ms. Kommi recalled that there were discussions back and forth during the drafting of the presentation and Ms. Kommi took those comments "at face value."

Ms. Kommi reviewed a document entitled "Outline for Rating Agency Presentation Booklet" (Exhibit 3). Mr. Schachter asked Ms. Kommi what her role was in preparing the outline. Ms. Kommi stated that with Carrier's assistance, she created the outline, which discussed the significant issues that needed to be covered with all three Agencies. Ms. Kommi recalled that the three Agencies received copies of this presentation which they were permitted to keep. In June 2003, this presentation was made to each agency on an individual basis. Ms. Kommi stated that this presentation was in summary form and that more in-depth information would be covered during the presentation, which would typically last three to four hours, or even longer. Ms. Kommi stated that she was responsible for preparing pages 25-28 of the presentation, discussing the pension system. Ms. Kommi stated that she worked with Carrier to develop the first draft of the pension section before it was circulated to the financing team for comments. The financing team was involved in the review of the pension section of the presentation, but Ms. Kommi recalled relying heavily on Terri Webster (Assistant Auditor)

because of her background regarding the pension system. Mr. Schachter asked Ms. Kommi if she could recall where she obtained the information located on page 26 of the presentation. Ms. Kommi replied that she would obtain information from various sources, including documents that she reviewed, such as agreements regarding benefits; resolutions; and Manager's Reports. Mr. Schachter pointed out that the first bullet point on page 26, which discusses the City's contributions under MP1 did not state that the City would be contributing less than an actuarially determined amount. Ms. Kommi stated that she could not recall why that information was not included. Ms. Kommi recalled that she became aware that the City was not contributing an actuarially determined amount in June 2003. Ms. Kommi noted that the third bullet point on page 26 mentioned that a second agreement was entered into to provide a transition period for the contribution amount to reach an actuarially-recommended amount. Ms. Kommi stated that because this bullet point assumed that the City was not contributing the amount recommended by the actuary, if there had been an attempt to hide that fact, it was thwarted by the information contained in the third bullet point. Mr. Schachter asked why page 27 of the presentation had "Confidential Information" printed on it. Ms. Kommi replied that the information was sensitive because it had not yet been shared with the City Council. Ms. Kommi and Carrier suggested that the language indicating that the information was confidential be printed on the presentation.

Mr. Callaghan asked Ms. Kommi why projections that showed the funding ratio dropping in 2009 were not presented to the Agencies. Ms. Kommi stated that looking back, she would have done many things differently. Nevertheless, Ms. Kommi recalled that Financial Services was conducting extensive analysis to understand what was impacting the funding ratio and the UAAL. Ms. Kommi recalled that at the time that the presentations were made to the Agencies, there was not a consensus among Public Financial Management, Towers Perrin -- both outside analysts hired to "crunch numbers" -- or Rick Roeder (SDCERS Actuary) regarding the projections. There were also disagreements regarding the cause of the decrease of the funding ratio and the increased UAAL. In fact, the projections would be modified almost weekly as everyone involved in creating the projections learned more about the pension system. For this reason, the notion of disclosing the projections was not even discussed. Ms. Kommi stated that a decision to hide the projections was never made.

Mr. Schachter asked Ms. Kommi if she ever considered whether there was a link between increased UAAL and increased benefits. Ms. Kommi stated that she could not recall having any conversations regarding that topic or thinking that a link existed. She thought that a legally binding contract existed which set forth the increased benefits. Ms. Kommi stated that it was unfair to ask that question, because she was studying the agreements regarding benefits and it would not have been logical to form that conclusion. Ms. Kommi went on to say that even if a connection between increased benefits and increased UAAL was recognized, she did not think that the Agencies would be concerned, because the funding ratio of the system was healthy. Ms. Kommi stated that the City later learned a lesson about the importance of considering long-term costs of increased benefits, but at the time that the presentation (Exhibit 3) was developed that was not known. Mr. Schachter asked Ms. Kommi if a connection between increased UAAL and increased benefits was ever disclosed to the Agencies. Ms. Kommi reiterated that there was no way that that inference could have been made at the time. Mr. Schachter repeated his question. Ms. Kommi replied that "the short answer" was that the connection between increased benefits and increased UAAL was not disclosed to the Agencies.

Mr. Callaghan asked Ms. Kommi when she became aware that the Agencies were concerned about the funding ratio reaching a certain percentage. Ms. Kommi replied that she might have learned that information from Fitch, a rating agency. Ms. Kommi stated that if the percentage dropped that would be an area of weakness. Ms. Kommi could not recall any additional information regarding this topic.

Ms. Kommi reviewed an email she received from Carrier, dated September 18, 2003 (Exhibit 4). A document that appeared to be an outline was attached to the email, and Mr. Schachter asked Ms. Kommi what the document was. Ms. Kommi replied that there was a meeting with Standard & Poor's ("S&P"), a rating agency, in September 2003. S&P had asked to meet with the City's representatives to discuss pension issues and this appeared to be a draft of that presentation. While Ms. Kommi did not think that this was ever provided to the Agencies, she recalled coordinating that meeting. Ms. Kommi thought that Carrier took the lead regarding the presentation, but it was possible that she was also involved in the preparation of the presentation. Ms. Kommi recalled that Webster, Ryan, Vattimo, and Frazier were going to make the presentation. Mr. Schachter pointed out that in the presentation the *Corbett* liability was listed as contingent and he asked Ms. Kommi for her opinion regarding that conclusion. Ms. Kommi stated that when this presentation was created she thought that *Corbett* was contingent. Ms. Kommi could not recall why she came to that conclusion, but stated that it might have had something to do with the settlement of that litigation or a resolution passed by the City Council. Mr. Schachter asked Ms. Kommi if she recalled any conversations during which it was stated that the *Corbett* liabilities were going to be deferred. Ms. Kommi stated that she could not recall any. Mr. Schachter asked Ms. Kommi if she knew what the reference to reserves being used to pay health insurance benefits contained in the outline meant. Ms. Kommi recalled that health insurance benefits were funded by excess earnings from the assets of the pension system. Mr. Schachter asked Ms. Kommi how she had learned that information. Ms. Kommi stated that the information was contained in the Rules Committee Report.

Interaction with Elected Officials

Mr. Callaghan asked Ms. Kommi what interactions she had with elected officials or their staff. Ms. Kommi replied that before Financial Services presents an offering to the City Council, the Council members' staff attend a briefing regarding the offering and have the opportunity to ask follow-up questions. Then the offering is presented to the City Council. Ms. Kommi stated that for the past two years she has been making the presentations to the City Council and responding to any questions from Council members. Mr. Callaghan asked Ms. Kommi if she had any interactions with elected officials in connection with the Appendix. Ms. Kommi replied that she did not.

Mr. Callaghan asked Ms. Kommi what interaction she had with the City Manager regarding presentations to Agencies. Ms. Kommi stated that the City Manager was in the chain of command and so she had some interaction with that office, as well as with Frazier and Ryan from the City Auditor's Office.

CAFR

Mr. Callaghan asked Ms. Kommi what her role was regarding the CAFR. Ms. Kommi stated that Ryan would ask her to review one or two schedules in the CAFR. Those schedules would relate to the City's debts. Ms. Kommi noted that the information regarding the City's debt was difficult to draft because if one figure changed, then all of the debt ratios also had to be modified. Ms. Kommi recalled occasionally noticing that "material improvements" were necessary and she would modify the debt ratios accordingly. She felt that she was asked to review those schedules in the CAFR because the information regarding the City's debts in the CAFR overlapped with similar information contained in the Appendix. After the CAFR was completed, it would be submitted to an outside auditor so that the outside auditor could execute a consent letter stating that the CAFR was accurate. Mr. Callaghan asked Ms. Kommi to point to the sections of the CAFR for which she was responsible. Ms. Kommi was given the 2002 CAFR to review (Exhibit 5) and she stated that she reviewed Tables 9 and 10 at pages 140-41.

Ms. Kommi reviewed an email she sent to Darlene DeRose, a financial consultant from Montague DeRose & Associates, dated September 19, 2003 (Exhibit 6). Mr. Callaghan asked Ms. Kommi what she thought DeRose was referring to when she wrote that "this one will be a little tricky." Ms. Kommi stated that she could not recall what that statement meant, but she stated that it appeared that she wanted to share some information with Ryan and Frazier, and DeRose seemed to be responding to that. Ms. Kommi could not recall if she received a response to her question about whether the information should be shared. Ms. Kommi recalled attending a meeting on September 24th with S&P and that that conversation was focused on pension issues (not wastewater issues). Ms. Kommi stated that inaccuracies in the CAFR were not discussed at that meeting.

Role of Disclosure Counsel

Ms. Kommi recalled that disclosure counsel was "the owner" of the offering statement. Mr. Callaghan asked Ms. Kommi to explain how that worked. Ms. Kommi stated that disclosure counsel served an important function. Historically, the City had disclosure counsel and an independent financial analyst on the financing teams. Ms. Kommi stated that the City Attorney's Office selected disclosure counsel. Usually bond and disclosure counsel were employed by the same law firm. Ms. Kommi recalled that on one occasion, disclosure and bond counsel were employed by two different law firms so that additional checks and balances would be in place. Ms. Kommi recalled that disclosure counsel's role was set forth in a contract that would explain the scope of the services to be provided; disclosure counsel's primary obligation was to prepare the offering document and to inform the City regarding what disclosures were necessary. In the process of developing a new offering statement, disclosure and bond counsel would rely on a past financing and then build off of that. Disclosure counsel would request the latest draft of the Appendix to incorporate it into the first draft of the offering. After the first draft of the offering was created, disclosure counsel would distribute the draft to the financing team. The financing team would review the draft and disclosure counsel would make sure that another draft with updates suggested by the financing team was created and distributed to the team. When the offering was completed, disclosure counsel would send the offering to the printers. Up until that point, the offering was not complete with all of the appendices. The financing team would not see the offering in its complete form prior to its being sent to the printers. Ms. Kommi stated that aside from disclosure counsel, the City sought legal advice solely from the City Attorney.

Mr. Callaghan asked Ms. Kommi if any tension existed between disclosure counsel and City employees. Ms. Kommi stated that there were some tensions regarding pension issues. If there was friction, there would be discussions back and fourth until the issue was resolved. Ms. Kommi recalled friction existing with disclosure counsel Paul Webber regarding the 2004 Voluntary Disclosure. Ms. Kommi stated that it seemed that regarding most issues, Webster and her staff would suggest changes and those were accepted by disclosure counsel "without any questions being asked." Ms. Kommi stated that the situation was different when it came to pension issues because the scope of disclosures was a topic that created some friction. Webber felt that certain pension disclosures needed to be made regardless of whether or not an offering was scheduled to occur.

Ms. Kommi reviewed an email she sent to Vattimo, dated February 2, 2004 (Exhibit 7). Ms. Kommi stated that the email contained Webber's suggestions regarding disclosures that should be incorporated into a Continuing Disclosure Agreement ("CDA"). Ms. Kommi recalled that if Webber's suggestions were incorporated into the CDA, they would need to be complied with during any financing or public offering that occurred for a period of thirty years. Ms. Kommi felt that Webber's suggestions were "draconian" and a huge burden on the City since once the disclosure agreement was executed, it would need to be followed for thirty years. Ms. Kommi stated that generally the disclosures that Webber wanted to include in the CDA were not standard in the market. Ms. Kommi was particularly against Webber's suggestion that projections of UAAL be disclosed because that disclosure was burdensome and it was not standard in the market. Ms. Kommi noted that that suggestion was not included in this email, but she stated that it may have been in an attachment to the email. (After the interview, Mr. Callaghan searched for the attachment to this email, but it could not be found.) Mr. Schachter asked which suggestions contained in the email would be too burdensome on the City. Ms. Kommi stated that the third suggestion regarding the amortization of UAAL was not burdensome. Ms. Kommi stated that the fourth suggestion regarding the City's contributions to SDCERS could be complied with, but that it would be difficult to obtain that information on a yearly basis. Ms. Kommi explained that the suggestions 7 through 10 were all burdensome. Ms. Kommi stated that she had put together that sort of information in the past, but that it was very intensive work and she could not imagine needing to do that amount of work every year. Mr. Schachter asked Ms. Kommi whether, given the problems the City had faced with disclosures in the past, Webber's suggestions could be considered reasonable. Ms. Kommi reiterated her opinion that she did not think that additional disclosures were necessary because they were not standard in the market. Additionally, Ms. Kommi stated that there was a big difference between making a more inclusive disclosure to remedy past problems on one occasion and having to make broad disclosures every year for a period of thirty years. Ms. Kommi stated that Webber was very hands-on and detail-oriented, but that he "could sometimes lose the big picture." Ms. Kommi stated that asking for these disclosures regarding pension issues was one example of Webber not understanding the big picture. Ms. Kommi stated that with hindsight, regarding non-pension issues, she would have disclosed more information than Webber advised. Mr. Schachter asked Ms. Kommi if she could think of a time when she or anyone else had told Webber that certain items needed to be disclosed where Webber disagreed. Ms. Kommi could not recall that ever happening. Ms. Kommi then stated that she had read several memos authored by Dennis Kahlie (City Treasurer's Office) in which he alleged that Webber was aware of the failures regarding wastewater.

Mr. Schachter asked Ms. Kommi to review an email she sent to Vattimo, dated March 19, 2003 (Exhibit 8). Ms. Kommi recalled thinking that counsel had advised the City to disclose the information contained in the *Gleason* complaint. Ms. Kommi recalled that there were discussions about whether or not to follow that advice. Mr. Schachter asked Ms. Kommi if Vattimo had expressed the view that information that reflected negatively on the City should not be disclosed. Ms. Kommi stated that she could not recall that being the case.

Ms. Kommi reviewed an email she received from Vattimo, dated June 25, 2003 (Exhibit 9). In the email, Vattimo stated that she is "assuming we do not want Paul to be extensively discussing litigation matters pertaining to pension issues." Mr. Schachter asked Ms. Kommi if she knew why that comment was made. Ms. Kommi replied that there were concerns regarding Webber communicating directly with Luce Forward because the possibility existed that the City would be "left out of the loop" regarding the *Gleason* litigation. Ms. Kommi recalled that Vattimo had expressed this concern. Ms. Kommi recalled that the *Gleason* litigation was a new issue and the City was expected to understand what was occurring with that litigation. Mr. Schachter asked Ms. Kommi why the view was not to let Webber explore the issue and then allow Webber to explain the issue to the City. Ms. Kommi replied that the learning process "was a team effort" and that she could not understand why not allowing Webber to communicate directly with Luce Forward was unreasonable.

Ms. Kommi volunteered that there was an interim version of the Appendix between a CAFR and the 2004 Voluntary Disclosure which was used in the 2003 Wastewater Disclosure. Ms. Kommi recalled that there were some changes made to the Appendix but that she was not aware of the changes that were made because Orrick, Herrington & Sutcliffe made those modifications. Ms. Kommi stated that this was an example of a problem that could arise if the City was "left out of the loop."

Ms. Kommi reviewed an email that Vattimo sent to Frazier, dated September 15, 2003 (Exhibit 10), which states that Diann Shipione (SDCERS Board member) blatantly disregarded facts. Mr. Schachter asked Ms. Kommi what she thought that was referring to. Ms. Kommi stated that she could not recall specifically, but her general impression was that Shipione may not have had accurate information.

Ms. Kommi reviewed an email she sent to Kelly Salt and Jeffrey Witt (City Attorney's Office) and Webster, dated July 29, 2003 (Exhibit 11), which asks "why we would ever print a totally false accusation." Mr. Schachter asked Ms. Kommi if she had any opinions regarding that statement. Ms. Kommi stated that Webber was inserting information into the pension disclosure when figures approved by the actuary should have been used.

Budget Preparation

Mr. Callaghan asked Ms. Kommi whether she was involved in preparing the City's budget. Ms. Kommi stated that she would receive information regarding in the City's debt obligations or debt service payments. Figures were presented to her in the form of schedules that would be attached to the final budget. She would review the information she received regarding the City's debt to confirm that the figures that were presented to her were accurate and included in the budget. Ms. Kommi stated that she did not review "line items" which specified the debts regarding individual offerings. Ms. Kommi would look at the total

amount of debt of all of the offerings combined. Ms. Kommi recalled that the information regarding the City's debt that she reviewed would be included on pages 5 or 6 of the budget, which was the debt management section focusing on outstanding debt, upcoming debt service for the next fiscal year, and the outstanding debt from the prior fiscal year.

Ms. Kommi discussed Gann limits from California Propositions 11 and 13. Gann limits require local governments to establish an expenditure limit which must be approved by City Council by June in order to put the City's budget into effect. The Gann limits take into account population growth, among other factors. The Gann limits prohibit the City's expenditures from growing in excess of a certain percentage each year. Ms. Kommi recalled that "this was a stand-alone function of Financial Services." Ms. Kommi stated that she suggested that this function be modified because Financial Services did not understand all the issues involved in setting the Gann limits. This task should have been done by the City Council.

Remediation

Ms. Kommi stated that she felt that the budget could be more user-friendly. She felt that it was too voluminous. However, the budget had recently been cut down to only one volume from six and that "may have gone too far." Ms. Kommi also stated that there was a disconnect between the snapshot of the pension obligations that was provided in the budget and what these obligations meant in the long-term. Overall, and with pension issues in particular, Ms. Kommi felt that a macro as opposed to a micro view needed to be fostered. Ms. Kommi did not elaborate further on what she meant by that. Ms. Kommi felt that more transparency should exist regarding the City's pension obligations. Ms. Kommi stated that a pension unit should exist that specifically addresses the pension system in the City's budget in order to ensure that the City's obligations are properly accounted for. She recalled having made that recommendation in 2005. Ms. Kommi did not state to whom she had made that recommendation.

Ms. Kommi also suggested that better communication between departments needed to exist, because currently there is a "filling the gap approach" where City employees receive figures from a department and "just enter it in." Ms. Kommi believes that more analysis than that should take place.

Ms. Kommi suggested that the financing team have the opportunity to review the entire Offering Statement, rather than just sections in isolation, prior to its completion. She also suggested that overall a more "holistic" view be taken with respect to an Offering Statement. Ms. Kommi did not elaborate further on what she meant by that.

Conclusion

At the conclusion of the interview, Mr. Schachter asked the representatives from KPMG if they had any additional questions. They responded that they did not. Mr. Callaghan then thanked Ms. Kommi for her cooperation and requested that she contact us if she recalled any new information.

WF&G